

**Auditing Procedures Report**

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Torch Lake Area Fire Protection Authority</b>	County <b>Houghton</b>
Audit Date <b>3/31/05</b>	Opinion Date <b>9/14/05</b>	Date Accountant Report Submitted to State: <b>9/29/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes   ☒ No   1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes   ☒ No   2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes   ☐ No   3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes   ☒ No   4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes   ☒ No   5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes   ☒ No   6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes   ☒ No   7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes   ☒ No   8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☒ Yes   ☐ No   9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

**Jackie A. Aalto, CPA**

Street Address

**116 Fifth Street**

City

**Calumet**

State

**MI**

ZIP

**49913**

Accountant Signature

*Jackie A. Aalto*

Date

**9/29/05**

**TORCH LAKE AREA FIRE  
PROTECTION AUTHORITY  
Houghton County**

**FINANCIAL REPORT**

**For the Two Year Period Ended March 31, 2005**

**TORCH LAKE AREA FIRE PROTECTION AUTHORITY**  
**FINANCIAL REPORT**  
**For the Two Year Period Ended March 31, 2005**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Torch Lake Area Fire Protection Authority  
Lake Linden, Michigan

I have audited the accompanying financial statements of the governmental activities and the major fund information of the Torch Lake Area Fire Protection Authority as of and for the two year period ended March 31, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Torch Lake Area Fire Protection Authority's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As discussed in Note 1C, the Torch Lake Area Fire Protection Authority prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities and the major fund information of the Torch Lake Area Fire Protection Authority as of March 31, 2005, and the respective changes in financial position – modified cash basis thereof for the two year period then ended in conformity with the basis of accounting described in Note 1C.

As described in Note 1, the Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended and interpreted, as of April 1, 2003.

The accompanying financial statements do not present a management's discussion and analysis which would be an analysis of the financial performance for the year that accounting principles generally accepted in the United States of America, as applied to the Authority's modified cash basis of accounting, has determined is necessary to supplement, although not required to be part of the basic financial statements.

The budgetary comparison information, as listed in the table of contents, is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America, as applied to the Authority's modified cash basis of accounting. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Jackie A. Aalto".

Jackie A. Aalto, CPA

September 14, 2005

**TORCH LAKE AREA FIRE PROTECTION AUTHORITY**

**Statement of Net Assets – Modified Cash Basis**

**March 31, 2005**

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	<u>Governmental Activities</u>
<b>Assets</b>	
Cash	\$    4,823
Capital assets, net	<u>136,734</u>
Total Assets	<u>141,557</u>
 <b>Liabilities</b>	
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	136,734
Unrestricted	<u>4,823</u>
Total Net Assets	<u>\$  141,557</u>

The notes to the financial statements are an integral part of this statement.

**TORCH LAKE AREA FIRE PROTECTION AUTHORITY**

## Statement of Activities – Modified Cash Basis

**For the Two Year Period Ended March 31, 2005**

	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Assets</u>
<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
<b>Governmental Activities</b>					
Public works	<u>\$ 31,664</u>	<u>\$ 22,500</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ (9,164)</u>
	Change in Net Assets				(9,164)
	Net Assets – Beginning				<u>13,987</u>
	Net Assets – Ending				<u>\$ 4,823</u>

The notes to the financial statements are an integral part of this statement.

**TORCH LAKE AREA FIRE PROTECTION AUTHORITY**

**Balance Sheet – Modified Cash Basis  
Governmental Fund**

**March 31, 2005**

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	<u>General Fund</u>
<b>Assets</b>	
Cash	<u>\$ 4,823</u>
 <b>Liabilities and Fund Balance</b>	
<b>Liabilities</b>	\$
 <b>Fund Balance</b>	4,823
 Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>136,734</u>
 Net Assets of Governmental Activities	<u><u>\$ 141,557</u></u>

The notes to the financial statements are an integral part of this statement.

**TORCH LAKE AREA FIRE PROTECTION AUTHORITY**

**Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis  
Governmental Fund**

**For the Two Year Period Ended March 31, 2005**

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	<u>General Fund</u>
<b>Revenues</b>	
Intergovernmental	\$ 12,500
Other	<u>10,000</u>
Total Revenues	<u>22,500</u>
<b>Expenditures</b>	
Public Works	
Administration	1,230
Insurance	5,486
Maintenance	<u>16,148</u>
Total Expenditures	<u>22,864</u>
<b>Net Change in Fund Balance</b>	(364)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	
	<u>(8,800)</u>
Change in Net Assets of Governmental Activities	<u>\$ (9,164)</u>

The notes to the financial statements are an integral part of this statement.

# **TORCH LAKE AREA FIRE PROTECTION AUTHORITY**

## **Notes to Financial Statements**

**March 31, 2005**

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### **Note 1 Summary of Significant Accounting Policies**

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

#### **Implementation of GASB Statement No. 34**

The aspects of financial statement content and format, as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34 have been implemented in the financial statements, effective for the year ended March 31, 2005.

Under the provisions of GASB Statement No. 34 the focus of the Authority's financial statements has shifted from a fund focus to a government-wide focus.

#### **A. Reporting Entity**

The Torch Lake Area Fire Protection Authority (the "Authority") was formed in 1995 for the purpose of acquiring, owning, improving, enlarging, extending and operating a water supply system for fire protection within the service area of the Authority. Members of the Authority include the municipalities of the Lake Linden Village, Osceola Township, Schoolcraft Township and Torch Lake Township, all located in Houghton County, Michigan. The Authority operates under a five member board of trustees consisting of one member from each constituent municipality and one at-large voting member selected by the board. The term of office for all members is two years. The accompanying financial statements include only the Torch Lake Area Fire Protection Authority and do not include any other governmental agencies or departments.

#### **B. Government-wide and Fund Financial Statements**

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Authority as a whole. The government-wide statement of net assets reports all financial and capital resources of the Authority. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit

# **TORCH LAKE AREA FIRE PROTECTION AUTHORITY**

## **Notes to Financial Statements**

**March 31, 2005**

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from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Fund financial statements are provided for the Authority's governmental fund. The Authority has no proprietary or fiduciary funds. The Authority reports only one fund, the General Fund. The General Fund accounts for all financial resources of the Authority.

### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

In the government-wide statement of net assets and the statement of activities the governmental activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting.

In the governmental fund financial statements, the "current financial resources" measurement focus, as applied to the modified cash basis of accounting, is used. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

In the government-wide statement of net assets and statement of activities and the fund financial statements, governmental activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the Authority utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the government-wide financial statements would be presented on the accrual basis of accounting.

# TORCH LAKE AREA FIRE PROTECTION AUTHORITY

## Notes to Financial Statements

March 31, 2005

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### D. Assets and Net Assets or Equity

**Bank Deposit** - The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Authority had no cash equivalents at March 31, 2005.

**Capital Assets** - The Authority's modified cash basis of accounting reports capital assets resulting from cash transactions and reports depreciation where appropriate. The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations and whether they are reported in the government-wide or fund financial statements.

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as assets in the statement of net assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the assets acquired prior to April 1, 2003.

Depreciation of all exhaustible capital assets arising from cash transactions is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. In general, a \$5,000 threshold is used to report capital assets. The range of estimated useful lives by type of asset is as follows:

Improvements to fire water distribution system	50 years
Supply pumps	25 years

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

**Fund Equity** - The fund financial statements report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. As of March 31, 2005 there were no reserves of the fund balance.

**Use of Estimates** - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Authority requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

# **TORCH LAKE AREA FIRE PROTECTION AUTHORITY**

## **Notes to Financial Statements**

**March 31, 2005**

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### **Note 2 Stewardship, Compliance and Accountability**

#### **A. Budgetary Information**

The Authority is required to follow the budget system provided by Michigan Public Act 621 – Uniform Budgeting and Accounting Act. The budget basis of accounting does not differ significantly from the modified cash basis of accounting used to reflect actual revenues and expenditures. Budgets are adopted at the activity level. Appropriations lapse at year end.

#### **B. Excess of Expenditures Over Appropriations**

For the two year period ended March 31, 2005 expenditures exceeded appropriations by \$2,864. These over expenditures were funded by greater than anticipated revenues.

### **Note 3 Deposits and Investments**

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Authority has designated one bank for the deposit of Authority funds. The Authority's deposits are in accordance with statutory authority.

At March 31, 2005 the Authority's deposits were \$4,823 which equaled the corresponding bank balance, all of which were insured by the Federal Deposit Insurance Corporation.

### **Note 4 Capital Assets**

Capital asset activity, resulting from modified cash basis transactions, for the two year period ended March 31, 2005 was as follows:

# TORCH LAKE AREA FIRE PROTECTION AUTHORITY

## Notes to Financial Statements

March 31, 2005

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	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
Capital assets being depreciated:				
Fire water distribution system	\$ 140,000	\$	\$	\$ 140,000
Supply pumps	<u>40,000</u>	<u>          </u>	<u>          </u>	<u>40,000</u>
Subtotal	<u>180,000</u>	<u>          </u>	<u>          </u>	<u>180,000</u>
Accumulated depreciation:				
Fire water distribution system	(21,933)	(5,600)		(27,533)
Supply pumps	<u>(12,533)</u>	<u>(3,200)</u>	<u>          </u>	<u>(15,733)</u>
Subtotal	<u>(34,466)</u>	<u>(8,800)</u>	<u>          </u>	<u>(43,266)</u>
Governmental activities net capital assets	<u>\$ 145,534</u>	<u>\$ (8,800)</u>	<u>\$</u>	<u>\$ 136,734</u>

### Note 5 Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, and errors and omissions. All risk of loss is covered by commercial insurance. There have been no claims or settlements in any of the prior three fiscal years.

### Note 6 Related Party Transactions

The Authority contracted with the Village of Lake Linden for maintenance services totaling \$16,148 during the two year period ended March 31, 2005.

## **Required Supplementary Information**

**TORCH LAKE AREA FIRE PROTECTION AUTHORITY**

**Budgetary Comparison Schedule – Modified Cash Basis  
General Fund**

**For the Two Year Period Ended March 31, 2005**

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	Budgeted Amount <u>Original &amp; Final</u>	<u>Actual</u>	Variance <u>With Budget</u>
Beginning Budgetary Fund Balance	\$ 5,187	\$ 5,187	\$
Resources (Inflows):			
Intergovernmental	10,000	12,500	2,500
Other	<u>10,000</u>	<u>10,000</u>	<u>          </u>
Amounts Available for Appropriation	<u>25,187</u>	<u>27,687</u>	<u>2,500</u>
Charges to Appropriations (Outflows):			
Public Works			
Administration		1,230	(1,230)
Insurance	6,400	5,486	914
Maintenance	<u>13,600</u>	<u>16,148</u>	<u>(2,548)</u>
Total Charges to Appropriations	<u>20,000</u>	<u>22,864</u>	<u>(2,864)</u>
Ending Budgetary Fund Balance	<u>\$ 5,187</u>	<u>\$ 4,823</u>	<u>\$ (364)</u>

September 14, 2005

To the Board of Trustees  
Torch Lake Area Fire Protection Authority  
Lake Linden, Michigan

Dear Board Members:

In planning and performing my audit of the financial statements of the Torch Lake Area Fire Protection Authority for the two year period ended March 31, 2005, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control. However, I noted a certain matter involving the internal control and its operation that I consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of internal control that, in my judgment, could adversely affect Torch Lake Area Fire Protection Authority's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

#### Reportable Condition

1. The size of the Authority's administrative staff precludes certain internal controls that would be preferred if it were large enough to provide optimum segregation of duties. This dictates that the Board remains involved in the financial affairs of the Authority to provide oversight and independent review functions.

#### Other Comments and Recommendations

2. An investment policy has not been adopted by the Authority, as required by Public Act 196 of 1997. It is recommended that a policy be adopted which would identify the types of allowable investments authorized under the Act.
3. The government-wide financial statements and the fund financial statements of the Authority are prepared on a modified cash basis of accounting. I recommend that the Authority prepare the government-wide financial statements on an accrual basis of accounting and the fund financial statements on a modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

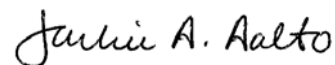
4. The financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year, that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. I recommend that future financial statements of the Authority include a management's discussion and analysis.
5. The Authority incurred expenditures in excess of amounts appropriated by \$2,864. I recommend that the Authority monitor its future budgets to ensure that excess expenditures are not incurred.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in my audit of the March 31, 2005 financial statements, and this report does not affect my report on those financial statements dated September 14, 2005. I have not considered the internal control since the date of my report.

This report is intended solely for the information and use of the board membership, management, federal and state awarding agencies, and, if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Thank you for the opportunity to perform your audit, and please contact me for any further assistance.

Sincerely,

A handwritten signature in cursive script that reads "Jackie A. Aalto".

Jackie A. Aalto, CPA